

**Adams Township  
Arenac County, Michigan  
Financial Report  
With Supplemental Information  
June 30, 2008**

Adams Township

Table of Contents

	<u>Page</u>
<b>Report Letter</b>	1
<b>Management's Discussion and Analysis</b>	2-7
<b>Basic Financial Statements</b>	
Government-wide Financial Statements:	
Statement of Net Assets	8
Statement of Activities	9
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	10
Statement of Revenues, Expenditures and Changes in Fund Balances	11
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	12
Fiduciary Funds:	
Statement of Net Assets	13
Statement of Changes in Net Assets	14
Notes to Financial Statements	15-22
<b>Required Supplemental Information</b>	
Budgetary Comparison Schedule - General Fund	23
Budgetary Comparison Schedule - Fire Fund	24



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### INDEPENDENT AUDITOR'S REPORT

Township Board  
Adams Township  
Arenac County, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of Adams Township as of and for the year ended June 30, 2008, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Adams Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above, present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Adams Township as of June 30, 2008, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on page 2 through page 7 and page 23 to 24 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Robertson & Carpenter CPAs, P.C.  
Certified Public Accountants  
January 8, 2009

## Management's Discussion and Analysis

As management of Adams Township (the "Township"), we offer readers of the Township's financial statements this narrative overview and analysis of the financial activities of the Township for the fiscal year ended June 30, 2008.

### Financial Highlights

- The assets of the Township exceeded its liabilities at the close of the most recent fiscal year by \$245,091 (*net assets*). Of this amount, \$140,284 (*unrestricted net assets*) may be used to meet the Township's ongoing obligations.
- The Township's total net assets increased by \$5,458.
- As of the close of the current fiscal year, the Township's governmental funds reported combined ending fund balances of \$140,284, a decrease of \$5,720 in comparison with the prior year. The General Fund balance is \$140,284 at June 30, 2008, 100% of total fund balances. The fund balance in the Special Revenue Fund (Fire Fund) is \$-0-.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$140,284 or 181% percent of total general fund expenditures.

### Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Township's basic financial statements. The Township's basic financial statements comprise three components: 1) Government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The *Government-wide financial statements* are designed to provide readers with a broad overview of the Township's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Township's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Township is improving or deteriorating.

The *statement of activities* presents information showing how the Township's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the Government-wide financial statements present functions of the Township that are principally supported by taxes and intergovernmental revenues (*governmental activities*). The governmental activities of the Township include general government, public safety, public works and recreation. The Township does not have any business-type activities as of and for the year ended June 30, 2008.

The Government-wide financial statements can be found on pages 8-9 of this report.

**Fund financial statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Township, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Township can be divided into two categories: governmental funds and fiduciary funds.

**Governmental funds.** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the Government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a Township's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the Government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Township maintains two governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and Fire Fund.

The Township adopts an annual appropriated budget for its general and special revenue fund. Budgetary comparison statements or schedules have been provided for the General Fund and Fire Fund herein to demonstrate compliance with those budgets.

The basic governmental fund financial statements can be found on pages 10-11 of this report.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the Township. Fiduciary funds are *not* reflected in the Government-wide financial statements because the resources of those funds are *not* available to support the Township's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on pages 13-14 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 15-22 of this report.

### **Government-wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Township, assets exceeded its liabilities by \$245,091 at the close of the most recent fiscal year.

A portion of the Township's net assets (43%) reflects its investment in capital assets (e.g., infrastructure, land, buildings, vehicles, and equipment). The Township uses these capital assets to provide services to the community; consequently, these assets are *not* available for future spending.

#### **Township's Net Assets**

	<b>Governmental Activities June 30, 2008</b>	<b>Governmental Activities June 30, 2007</b>
Current and Other Assets	\$ 144,487	\$ 146,004
Capital Assets, Net	104,807	93,629
<b>Total Assets</b>	<b>\$ 249,294</b>	<b>\$ 239,633</b>
Current Liabilities	4,203	0
<b>Total Liabilities</b>	<b>\$ 4,203</b>	<b>\$ 0</b>
Net Assets:		
Invested in Capital Assets	104,807	93,629
Unrestricted	140,284	146,004
<b>Total Net Assets</b>	<b>\$ 245,091</b>	<b>\$ 239,633</b>

The Township's net assets increased by \$5,458 during the current fiscal year. Unrestricted net assets—the part of net assets that can be used to finance day to day operations, decreased by \$5,720 or 3%, during year ended June 30, 2008.

### Township's Changes in Net Assets

	<b>Governmental Activities June 30, 2008</b>	<b>Governmental Activities June 30, 2007</b>
<b>Revenue:</b>		
Program Revenue:		
Charges for services	\$ 2,350	\$ 2,516
Operating Grants and Contributions	1,338	7,053
General Revenue:		
Property Taxes	23,234	21,258
State-Shared Revenues	37,650	43,317
Interest Earnings	4,524	5,203
Other	2,610	1,851
<b>Total Revenue</b>	<b>\$ 71,706</b>	<b>\$ 81,198</b>
<b>Expenses:</b>		
General Government	\$ 62,021	\$ 54,447
Public Safety	0	275
Public Works	4,227	4,210
<b>Total Expenses</b>	<b>\$ 66,248</b>	<b>\$ 58,932</b>
<b>Increase (Decrease) in Net Assets</b>	<b>5,458</b>	<b>22,266</b>
Net Assets, Beginning of Year	239,633	217,367
<b>Net Assets, End of Year</b>	<b>\$ 245,091</b>	<b>\$ 239,633</b>

**Governmental activities.** The governmental revenues of the Township decreased by \$9,492 compared to the prior fiscal year. During the 2006-2007 fiscal year, revenues included donated assets of \$5,720 (election equipment). Expenses increased by \$7,316, including an increase of \$6,281 in assessing costs.

### Financial Analysis of the Government's Funds

As noted earlier, the Township uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

As of the end of the current fiscal year, the Township's governmental funds reported combined ending fund balances of \$140,284, a decrease of \$5,720 in comparison with the prior year. The *unreserved fund balance*, which is available for spending at the Township's discretion, is \$140,284 (100% of this total amount).

The General Fund is the principal operating fund of the Township. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$140,284. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance and total fund balance each represent 181% of total general fund expenditures.

The fund balance of the General Fund decreased by \$5,720 during the current fiscal year. The fund balance in the Fire Fund was \$-0- at the start and end of the fiscal year.

### **General Fund Budgetary Highlights**

The Township's budgets are prepared in accordance with Michigan Law. The most significant budgeted fund is the General Fund. The General Fund budget was not amended during the year. Township expenditures were \$ 114,546 less than budgeted. Capital outlay expenditures were \$114,546 less than budgeted.

### **Capital Asset and Debt Administration**

**Capital assets.** The Township's investment in capital assets for its governmental activities as of June 30, 2008, amounted to \$104,807 (net of accumulated depreciation). Investment in capital assets includes infrastructure, land, buildings, vehicles and equipment. Additions totaled \$17,952 during the fiscal year. Additions to road improvements for the year were \$13,902.

#### **Township's Capital Assets** (net of depreciation)

	<b>June 30, 2008</b>	<b>June 30, 2007</b>
Infrastructure	\$ 13,439	\$ 0
Land and land improvements	14,555	14,767
Buildings	66,234	68,783
Furniture and Equipment	10,579	10,079
<b>Total</b>	<b>\$ 104,807</b>	<b>\$ 93,629</b>

Additional information on the Township's capital assets can be found in note 4 on page 20 of this report.



## **Factors Bearing on the Township's Future**

The following factors were considered in preparing the Township's budget for the 2008-2009 fiscal year:

- The State of Michigan has made significant cuts in their operating budgets due to a downturn in the economy. For 2007-2008, the Township received \$37,650 in state shared revenue, representing 53% of the revenues in the General Fund. The amounts of state shared revenues for future periods are uncertain and will affect the Township's budgets. The Township is in the process of a township-wide property reassessment. The budgeted property tax revenues and expenditures for the assessor activity center will need to be revised when revenue and expenditure amounts are available for 2008-2009. Our budgets were prepared with these factors in mind and will be amended as required.

## **Requests for Information**

This financial report is designed to provide a general overview of the Township's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Adams Township  
6600 W Sterling Road  
Sterling, Michigan 48659

Adams Township  
Statement of Net Assets  
June 30, 2008

	<u>Governmental Activities</u>
<b>Assets</b>	
Cash and cash equivalents (Note 3)	\$ 129,346
Accounts receivable	2,050
Due from other funds	7,146
Due from other governments	5,945
Capital assets-net (Note 4)	<u>104,807</u>
Total assets	<u>249,294</u>
 <b>Liabilities</b>	
Accounts payable	2,808
Due to other governments	<u>1,395</u>
Total liabilities	<u>4,203</u>
 <b>Net Assets</b>	
Invested in capital assets	104,807
Unrestricted	<u>140,284</u>
Total net assets	\$ <u><u>245,091</u></u>

See accompanying notes to financial statements.

Adams Township  
Statement of Activities  
Year ended June 30, 2008

Functions/Programs	Expenses	Program Revenues		Governmental
		Charges for	Operating	Activities
		Services	Grants	Net (Expense)
				Revenue and
				Changes in
				Net Assets
Governmental Activities				
General government	\$ 62,021	\$ 2,350	\$ -	\$ (59,671)
Public works	4,227		1,338	(2,889)
Public safety	-		-	-
Recreation and culture	-	-	-	-
Total governmental activities	<u>\$ 66,248</u>	<u>\$ 2,350</u>	<u>\$ 1,338</u>	<u>\$ (62,560)</u>
General Revenues:				
Property taxes and fees				23,234
State revenues				37,650
Interest and investment earnings				4,524
Other				<u>2,610</u>
Total general revenues				<u>68,018</u>
Change in Net Assets				5,458
Net assets - beginning of year				<u>239,633</u>
Net assets - end of year				<u>\$ 245,091</u>

See accompanying notes to financial statements.

Adams Township  
Governmental Funds  
Balance Sheet  
June 30, 2008

	General Fund	Fire Fund	Total Governmental Funds
<b>Assets</b>			
Cash and investments (Note 3)	\$ 129,346	\$ -	\$ 129,346
Accounts Receivable	2,050	-	2,050
Due from other funds (Note 5)	7,146	-	7,146
Due from other governments	5,945	-	5,945
Total assets	<u>\$ 144,487</u>	<u>\$ -</u>	<u>\$ 144,487</u>
<b>Liabilities</b>			
Accounts payable	\$ 2,808	\$ -	\$ 2,808
Due to other funds	-	-	-
Due to other governments	1,395	-	1,395
Total liabilities	<u>4,203</u>	<u>-</u>	<u>4,203</u>
<b>Fund balances</b>			
Unreserved:			
General Fund	140,284	-	140,284
Total fund balances	<u>140,284</u>	<u>-</u>	<u>140,284</u>
Total liabilities and fund balances	<u>\$ 144,487</u>	<u>\$ 0</u>	<u>\$ 144,487</u>

<b>Fund Balances - Total Governmental Funds</b>	<b>\$ 140,284</b>
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources, and are not reported in the funds.

The cost of capital assets is	\$ 126,405	
Accumulated depreciation is	<u>(21,598)</u>	
		104,807

<b>Net Assets of Governmental Activities</b>	<b>\$ <u>245,091</u></b>
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See accompanying notes to financial statements.

Adams Township  
Governmental Funds  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Year ended June 30, 2008

	General Fund	Fire Fund	Total Governmental Funds
<b>Revenues</b>			
Property taxes and fees	\$ 23,234	\$ 11,524	\$ 34,758
State revenues	38,988	-	38,988
Charges for services	-	-	-
Interest and rentals	6,874	-	6,874
Reimbursements	2,608	-	2,608
Other	2	-	2
Total revenues	<u>71,706</u>	<u>11,524</u>	<u>83,230</u>
<b>Expenditures</b>			
Current:			
General government	55,710	-	55,710
Public works	17,666	-	17,666
Public safety	-	11,524	11,524
Recreation and culture	-	-	-
Capital outlay	4,050	-	4,050
Total expenditures	<u>77,426</u>	<u>11,524</u>	<u>88,950</u>
<b>Net changes in fund balances</b>	(5,720)	-	(5,720)
<b>Fund balances - Beginning of year</b>	<u>146,004</u>	<u>-</u>	<u>146,004</u>
<b>Fund balances - End of year</b>	\$ <u><u>140,284</u></u>	\$ <u><u>0</u></u>	\$ <u><u>140,284</u></u>

See accompanying notes to financial statements.

Adams Township  
Governmental Funds  
Reconciliation of the Statement of Revenues, Expenditures and Changes  
in Fund Balances of Governmental Funds to the Statement of Activities  
Year ended June 30, 2008

<b>Net Change in Fund Balances - Total Governmental Funds</b>	\$	(5,720)
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Amounts reported for governmental activities are different because:

Government funds report capital outlays as expenditures;  
in the statement of activities these costs are allocated  
over their estimated useful lives as depreciation.

Depreciation expense	\$	(6,774)	
Capital Outlay		17,952	
			11,178

<b>Change in Net Assets of Governmental Activities</b>	\$	5,458
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See accompanying notes to financial statements.

Adams Township  
Fiduciary Funds  
Statement of Net Assets  
June 30, 2008

	Trust Fund- Pension Fund	Agency Fund Type (Property Tax Collection Fund)
<b>Assets</b>		
Cash	\$ -	\$ 7,146
Investments - at fair value	<u>24,318</u>	<u>-</u>
Total assets	\$ <u>24,318</u>	\$ <u><u>7,146</u></u>
<b>Liabilities</b>		
Accounts payable	-	-
Due to other funds	<u>-</u>	<u>7,146</u>
Total liabilities	<u>-</u>	\$ <u><u>7,146</u></u>
<b>Net Assets</b> - Held in Trust for Pension Benefits	\$ <u><u>24,318</u></u>	

See accompanying notes to financial statements.

Adams Township  
Fiduciary Funds  
Statement of Changes in Net Assets  
Year ended June 30, 2008

	Trust Fund- Pension Fund
<b>Additions</b>	
Contributions	
Employer	\$ 1,297
Investment earnings	<u>808</u>
Total Additions	2,105
 <b>Deductions</b>	
Benefits	-
Administrative expenses	<u>-</u>
Total deductions	-
 <b>Net decrease</b>	2,105
 <b>Net Assets Held in Trust for Pension Benefits</b>	
Beginning of the year	<u>22,213</u>
End of the year	\$ <u><u>24,318</u></u>

See accompanying notes to financial statements.



Adams Township  
Notes to Financial Statements  
June 30, 2008

**Note 1 - Summary of Significant Accounting Policies**

The accounting policies of Adams Township ("the Township") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the more significant policies used by the Township:

**Reporting Entity**

The Township is governed by an elected five member Township Board. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board (GASB) for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the Township's reporting entity, and which organizations are legally separate, component units of the Township. Based on the application criteria, the Township does not contain any component units.

**Government-wide and Fund Financial Statements**

The Government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the Township. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the Township's government-wide activities are considered governmental activities. The Township does not have any business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a certain function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Adams Township  
Notes to Financial Statements  
June 30, 2008

**Note 1 - Summary of Significant Accounting Policies (Continued)**

Government fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and severance pay, are recorded only when payment is due.

Property taxes, state-shared revenue and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when the cash is received by the Township.

The Township reports the following major governmental funds:

The General Fund is the Township's primary operating fund. It accounts for all financial resources of the Township, except those required to be accounted for in another fund.

The Fire Fund is used to account for a voted millage for fire protection in the Township.

Additionally, the Township reports the following funds:

The Pension Trust Fund accounts for the activity of the Township defined contribution retirement plan, which accumulated resources for pension benefit payments to qualified employees.

The Tax Collection Fund accounts for property taxes collected and disbursed to other taxing authorities by the Township as required by law.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenue include: (1) charges to customers for goods, services or privileges provided and (2) operating grants and contributions. General revenue includes all taxes.

**Assets, Liabilities, and Net Assets or Equity**

**Bank Deposits and Investments** - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Adams Township  
Notes to Financial Statements  
June 30, 2008

**Note 1 - Summary of Significant Accounting Policies (Continued)**

**Receivables and Payables** - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds."

All trade and property tax receivables are shown net of an allowance for uncollectible amounts. The taxpayers of the Township have their properties assessed as of December 31 and the related property taxes are levied and become a lien on December 1 for 100% of the taxes which are due February 28. The 2007 taxable value of the Township was \$13,837,195. The 2007 tax levy was .8595 for general operating purposes and 1.000 for fire, raising \$11,883 for general operating purposes and \$12,413 for fire.

**Capital Assets** - Capital assets, which include land, buildings, equipment, and infrastructure assets (e.g., amounts paid to the Road Commission for the intangible right to use the roads), are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the Township as assets with an initial individual cost of more than \$250 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of the donation. Infrastructure assets acquired prior to implementation of GASB 34 are not included in the financial statements.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Infrastructure	20 years
Buildings and additions	50 years
Vehicles	5 years
Office furnishings	5-20 years
Other equipment	5-20 years

**Compensated Absences** - There is no liability for compensated absences reported in the government-wide financial statements since no Township employees are provided with sick or vacation pay benefits.

**Fund Equity** - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriating or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Adams Township  
Notes to Financial Statements  
June 30, 2008

**Note 1 - Summary of Significant Accounting Policies (Continued)**

Comparative Data/Reclassifications - Comparative data is not included in the Township's financial statements.

Budgetary Information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles and state laws for the general and special revenue funds. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the Township adopt its budgets by April 1. Expenditures in excess of amounts budgeted is a violation of Michigan Law. State law permits Townships to amend its budget during the year. There were no budget amendments during the year.

Encumbrances are not liabilities and, therefore, are not recorded as expenditures until the receipt of materials or services. For budgetary purposes, appropriations lapse at fiscal year end and outstanding encumbrances are reappropriated in the next year.

**Note 2 - Stewardship, Compliance and Accountability**

**Excess of expenditures over appropriations in budgeted funds:**

The Township incurred expenditures in excess of amounts budgeted as follows:

<u>Fund and Function</u>	<u>Appropriation</u>	<u>Expenditure</u>	<u>Variance</u>
General Fund			
Assessor	\$ -	\$ 16,203	\$ 16,203
Cemetery	4,000	4,175	175
Capital outlay	-	4,050	4,050
Fire Fund - Public safety	-	11,524	11,524

**Note 3 - Deposits and Investments**

At year-end, the Adams Township's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Township Total</u>
Cash and cash equivalents	\$ 129,346	\$ -	\$ 129,346
Investments	-	24,318	24,318
Total	<u>\$ 129,346</u>	<u>\$ 24,318</u>	<u>\$ 153,664</u>

Adams Township  
Notes to Financial Statements  
June 30, 2008

**Note 3 - Deposits and Investments (Continued)**

The breakdown between deposits and investments for the Township is as follows:

Deposits (checking, savings and CDs)	\$ 129,346
Investments	<u>24,318</u>
	<u>\$ 153,664</u>

**Investment and deposit risk:**

**Interest rate risk**

In accordance with its investment policy, the Township will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by investing operating funds primarily in shorter term securities and limiting the average maturity in accordance with the Township's cash requirements.

**Credit risk**

State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRPs). The Township has no investments for which ratings are required.

**Custodial credit risk - deposits**

In the case of deposits, there is the risk that in the event of a bank failure, the Township's deposits may not be returned to it. State law does not require and the Township does not have a policy for custodial credit risk. At June 30, 2008, \$24,672 of the Township's bank balances of \$137,807 was exposed to custodial credit risk because it was uninsured.

The Township Board is authorized to designate depositories for Townships funds, and to determine that the funds are invested in accordance with State of Michigan statutory authority.

- a. Bonds, securities, and other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States with remaining maturities of two years or less.
- b. Certificates of deposit of a bank which is a member of the Federal Deposit Insurance Corporation.
- c. Commercial paper rated at the time of purchase within the two highest classifications by not less than two standard rating services.

The Township's deposits are in accordance with statutory authority.

Adams Township  
Notes to Financial Statements  
June 30, 2008

**Note 4 - Capital Assets**

Capital assets activity of the Township's Governmental activities were as follows:

	Balance July 1, 2007	Additions	Deletions	Balance June 30, 2008
Capital assets not depreciated:				
Land	\$ 10,720	\$ -	\$ -	\$ 10,720
Capital assets being depreciated:				
Infrastructure	-	13,902	-	13,902
Land improvements	4,242	-	-	4,242
Buildings	76,461	-	-	76,461
Furniture & equipment	17,030	4,050	-	21,080
Subtotal	<u>108,453</u>	<u>17,952</u>	<u>-</u>	<u>126,405</u>
Accumulated Depreciation				
Infrastructure	-	463	-	463
Land improvements	195	212	-	407
Buildings	7,678	2,549	-	10,227
Furniture & equipment	6,951	3,550	-	10,501
Subtotal	<u>14,824</u>	<u>6,774</u>	<u>-</u>	<u>21,598</u>
Net capital assets being depreciated	<u>93,629</u>	<u>11,178</u>	<u>-</u>	<u>104,807</u>
Governmental Activities				
Total Capital Assets net of Depreciation	<u>\$ 93,629</u>	<u>\$ 11,178</u>	<u>\$ 0</u>	<u>\$ 104,807</u>

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:	
General government	\$ 6,311
Public works	463
Total governmental activities	<u>\$ 6,774</u>

**Note 5 - Receivables, Payables and Transfers**

The composition of interfund balances is as follows:

<u>Receivable Fund</u>		<u>Payable Fund</u>	<u>Amount</u>
General Fund	\$ 7,146	General Fund	\$ -
Fire Fund	-	Fire Fund	-
Fiduciary Funds	-	Fiduciary Funds	7,146
Total	<u>\$ 7,146</u>	Total	<u>\$ 7,146</u>

Adams Township  
Notes to Financial Statements  
June 30, 2008

**Note 6 - Risk Management**

Adams Township is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by insurance purchased from independent insurance companies. Settled claims from these risks have not exceeded insurance coverage for the last three years.

**Note 7 - Pension Plan**

Adams Township has a defined contribution plan for board members, through Met Life Insurance Company. A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account, the returns earned on investments of these contributions, and forfeitures of other participant's benefits that may be allocated to such participant's account.

The Township pension plan agreement specifies which Township positions are covered by the plan. Contributions made by a board member and the Township vest immediately. A board member that leaves the employment of the Township is entitled to his or her account balance consisting of the employee and Township contributions, as well as earnings in the account.

During the year, the Township's required and actual contributions amounted to \$1,297 which was 8% of its current year covered payroll plus fees. Covered payroll was \$17,290. Total payroll was \$19,020.

Employer	\$	1,297
Administration Fees		125
	\$	<u>1,422</u>

No pension provision changes occurred during the year that affected the required contributions to be made by the Township or its employees. The plan held no securities of the Township or other related parties during the year or at the close of the fiscal year.

Adams Township  
Notes to Financial Statements  
June 30, 2008

**Note 8 - Joint Area Fire Board**

The last audit of the Sterling Area Fire Board was for the year ended December 31, 2005. The financial statements included the following information:

Total Assets	\$ 43,539	<u>Contributions - 2005</u>	
Total Liabilities	5,783	Adams Township	\$ 10,572
Total Equity	37,756	Clayton Township	20,993
Total Revenue	112,523	Deep River Township	<u>42,979</u>
Total Expenditures	93,478		
Increase in Fund Balance	19,045	Total	\$ <u><u>74,544</u></u>

The contributions from local governments were computed based on SEV.

A copy of financial statements may be obtained at the Township hall at 6600 W. Sterling Road, Sterling, Michigan.



## **Required Supplemental Information**

Adams Township  
Budgetary Comparison Schedule - General Fund  
Year ended June 30, 2008

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
<b>Fund Balance - Beginning of year</b>	\$ 146,004	\$ 146,004	\$ 146,004	\$ -
<b>Resources (Inflows)</b>				
Property tax and fees	-	-	23,234	-
State revenues	-	-	38,988	-
Charges for services	-	-	-	-
Interest and rentals	-	-	6,874	-
Reimbursements	-	-	2,608	-
Other	-	-	2	-
Total Revenue	64,760	64,760	71,706	6,946
Amounts available for appropriation	210,764	210,764	217,710	6,946
<b>Charges to Appropriations (Outflows)</b>				
General government				
Township Board	14,100	14,100	8,784	5,316
Supervisor	5,300	5,300	3,822	1,478
Elections	3,000	3,000	732	2,268
Assessor	-	-	16,203	(16,203)
Clerk	4,000	4,000	3,375	625
Board of Review	1,800	1,800	1,181	619
Treasurer	5,925	5,925	5,240	685
Township Hall	32,000	32,000	12,198	19,802
Cemetery	4,000	4,000	4,175	(175)
Public Works				
Roads	121,847	121,847	17,666	104,181
Capital outlay	-	-	4,050	(4,050)
Total charges to appropriations	191,972	191,972	77,426	114,546
<b>Fund Balance - end of year</b>	\$ 18,792	\$ 18,792	\$ 140,284	\$ 107,600

Adams Township  
 Budgetary Comparison Schedule - Fire Fund  
 Year ended June 30, 2008

	<u>Budgeted Amounts</u>		Actual Amounts (Budgetary Basis)	Variance with Final Budget Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
<b>Fund Balance</b> - Beginning of year	\$ -	\$ -	\$ -	\$ -
<b>Resources (Inflows)</b>				
Property tax and fees			11,524	11,524
Amounts available for appropriation	-	-	11,524	11,524
<b>Charges to Appropriations (Outflows)</b>				
Public safety			11,524	(11,524)
Total charges to appropriations	-	-	11,524	(11,524)
<b>Fund Balance</b> - end of year	\$ 0	\$ 0	\$ 0	\$ 0



# ROBERTSON & CARPENTER CPAs, P.C.

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Other office: Mio, Michigan

Rodney C. Robertson, CPA

Robert J. Carpenter, CPA

January 8, 2009

Township Board  
Adams Township  
Arenac County, Michigan

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Adams Township as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered Adams Township's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the a governmental unit's internal control. Accordingly, we do not express an opinion on the effectiveness of the governmental unit's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the Township's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Township's financial statements that is more than inconsequential will not be prevented or detected by the Township's internal control. We consider the following deficiency to be a significant deficiency in internal control.

## **Lack of adequate controls to produce full-disclosure GAAP basis financial statements.**

*Requirement:* All Michigan governmental units are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the Township's management. The preparation of financial statements

in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data, and (2) reporting government-wide and fund financial statements, including the related footnotes.

*Condition:* The Township, as is common with smaller and medium-sized entities, has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the Township's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditors, who cannot by definition be considered part of the government's internal controls.

*Cause:* This condition was caused by the Township's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the Township to perform this task internally.

*Effect:* The result of this condition is that the Township lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

*View of responsible officials:* The Township has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the Township to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

In addition, we noted other matters involving internal control and its operation that we have reported to the management of Adams Township in a separate letter dated January 8, 2009.

This communication is intended solely for the information and use of management, the Township Board, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Robertson & Carpenter CPAs, P.C.  
Certified Public Accountants  
Rose City, Michigan



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Rodney C. Robertson, CPA

Robert J. Carpenter, CPA

January 8, 2009

To the Township Board  
Adams Township  
Arenac County, Michigan

We have audited the financial statements of the governmental activities and each major fund of Adams Township for the year ended June 30, 2008, and have issued our report thereon dated January 8, 2009. Professional standards require that we provide you with the following information related to our audit.

## Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated July 1, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

## Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on November 24, 2008.

## Significant Audit Findings

### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Adams Township are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2008. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of depreciation expense is based on estimated useful lives of the fixed assets. We evaluated the key factors and assumptions used to develop the depreciation expense in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear.

### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

### *Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated January 8, 2009.

### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### *Other Comments*

### *Budget Law*

The Township did not publish a notice or hold a budget hearing as required by State law. The Township did not adopt a general appropriations act as required by the Budgeting Act. The Act also requires that the recommended budget for the general fund and Fire Fund must include revenue, expenditure and fund balance information for the most recently completed fiscal year, as well as for the current year and the next fiscal year. Required information was not provided in the recommended budget for the most recently completed fiscal year or the current year. The budget adopted at a regular board meeting did not provide a detail listing of revenues as required by the Act. The Act also provides that expenditures incurred on a functional basis cannot exceed the budgeted amounts. There were a few instances that expenditures exceeded budgeted amounts as disclosed in Note 2 to the financial statements.

### *Compensation*

Township Board members receive a per diem for attending meetings. For general law townships, MCL 41.95(2) states, "The supervisor, clerk and treasurer shall receive no additional compensation for attending meetings of the township board. A township official may draw per diem or per meeting compensation, in addition to receiving a base annual salary, for attending meetings that are *not* meetings of the township board.

### *Township Policies*

The Township should formally adopt a capital asset policy and an investment policy to comply with State law.

The Township has historically paid the employee share of FICA and Medicare as a fringe benefit. Though the total is relatively small (Approximately \$570 for 2007), the employee share should be deducted from gross pay for all employees.

This information is intended solely for the use of the Township Board and management of Adams Township and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Robertson & Carpenter CPAs, P.C.